



March 18, 1997

Steve Crow  
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**Subject:** Comments on [Draft Fourth Northwest Conservation and Electric Power Plan](#)

Dear Steve:

We appreciate the opportunity to provide comments on **Northwest Power in Transition: Opportunities and Risks - Draft Fourth Northwest Conservation and Electric Power Plan**. The Council has done a very commendable job of synthesizing and analyzing important elements in the region's changing electricity industry. The draft document provided much valuable policy analysis and information for the recently concluded Comprehensive Review of the Northwest Energy System. We believe that the technical analysis portions of the Plan, in particular, will continue to be a touchstone for both Washington State and the region as we further articulate and implement the Comprehensive Review recommendations. The Draft clearly shows that, while planning for central resource acquisition is no longer appropriate, the functions of an analytically sophisticated regional planning body remain exceedingly valuable.

The following comments focus primarily on the conservation estimates in the Plan.

Although the Council conducted an extensive review and analysis of conservation activities throughout the Northwest, we believe that your estimates of cost-effective conservation potential err on the low side for several reasons.

First, while the 1997 Draft Plan appropriately includes estimates for highly promising emerging conservation strategies such as commissioning for new and existing buildings, you have not included some others of equal or greater potential. There is strong evidence of substantially more conservation potential from other operational and behavioral improvements in buildings. We would cite just three examples.

- The Building Operator Training and Certification program, just approved for new funding from the Northwest Energy Efficiency Alliance (NEEA), has already shown that operational changes in buildings which are tied to improving occupant comfort and enhanced preventive maintenance practices can generate large energy savings. We are likely to see more emphasis on better operations of buildings, particularly in the institutional-sector, as funding for new construction declines and buildings are required to serve more functions and last longer.
- A second example is the Resource Conservation Manager program which originated in Oregon and is now being picked up throughout Washington State. The program initially concentrated on school district operations and yielded dramatic results. The documented energy savings in individual school districts in Oregon and Washington often reach into the hundreds of thousands of dollars per year with simple paybacks of less than one-year. The success of the RCM program has now led to expanded interest in applying the concept to federal facilities, commercial buildings, and community colleges. We urge you to include estimates for the savings potential of these types of program in your final plan.
- The Plan estimates that the cost-effective industrial conservation potential is "approximately eight percent of electric industrial loads" while at the same time acknowledging that savings from actual industrial programs range "from a low of 4 percent to a high of 18 percent." Given the breadth of this range and the fact that the programs to date have rarely achieved full cost-effective potential, we believe this estimate is unduly low. The Council should continue to monitor and evaluate industrial efficiency activities in the region and nationwide and identify opportunities to close the gap between potential and performance.

Second, we are pleased to see that you have included a wide range of carbon dioxide taxes as proxies for environmental externalities. Concerns about global climate change will continue to increase for the foreseeable future. As you correctly point out the U.S. has made a formal commitment to decrease greenhouse gas emissions to the 1990 level by the year 2000. That commitment is likely to become both more ambitious and more binding in December, with the conclusion of the next round of international negotiations. Achieving greenhouse gas reduction goals will require massive mitigation efforts.

A prudent strategy for minimizing economic risk to the region in the development of new resources should incorporate the likelihood that carbon costs will be internalized. As your analysis demonstrates, the inclusion of a carbon tax adder increases the value of cost effective conservation by \$3 to \$6 billion. Since the economic risk associated with internalization of carbon costs is clearly greater than zero, the final plan's resource potential should include some value for avoided carbon emissions.

More generally, we would encourage the Council to examine how competition can be structured to minimize both economic and environmental costs. We may never accurately quantify environmental costs, but that should not prevent us from structuring a market that recognizes and minimizes them. Doing so will require market mechanisms that provide clear information regarding the environmental characteristics of alternative power supplies and stranded cost recovery mechanisms that do not encourage continued operation of economically or environmentally obsolete facilities. Evaluating alternative approaches for improving the

environmental performance of a restructured system would be a worthy topic for future Council analysis.

The Draft Plan estimates that about 20 percent of cost effective conservation potential is likely to be captured by market forces alone. This strikes us as an optimistic forecast, but a good target. We enthusiastically support efforts to ensure that the market captures as much of the cost-effective conservation potential as possible. In this regard, we are concerned that unbundled rate designs are likely to impede the development of a more robust efficiency market by increasing the fixed portion of the typical consumer's rate. Even with today's bundled rates, shared savings and zero-interest loan programs have achieved only limited success in niche markets. We remain hopeful that market barriers can be reduced and program designs can be adapted to support more "market pull" for efficiency measures. Your relatively optimistic assessment of what the market can be expected to deliver should serve as a useful reminder that the purpose of energy efficiency investment is to augment, not supplant, what the market would otherwise do. And even with this ambitious goal, it remains clear that the failure to mobilize substantial energy system investments in efficiency will result in significantly higher costs as cost-effective opportunities go untapped. This reinforces the clear necessity to implement a fair, competitively neutral mechanism for funding these investments in the future.

Finally, it is time to move forward with the creation of a Regional Technical Forum, as called for by Congress and the Comprehensive Review recommendations. Formation is an important step toward the implementation of objective mechanisms for measuring and verifying cost-effective regional conservation. We support your statement in Chapter Eight of the Plan that "it is likely that there will be continued value in an independent source of analysis of the region's energy system," indeed, it is vital.

On the whole, the Draft 1997 Plan offers a potent affirmation of the continuing value of a thoughtful, regional attempt to identify challenges, assess opportunities, and articulate goals for the region's energy future. Thanks for the great work and the opportunity to comment.

We would be glad to provide additional information and analysis to your staff on any of the points we have raised.

Sincerely,

K.C. Golden  
Assistant Director